

Message Text

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14

ACTION EB-11

INFO OCT-01 EA-11 ADP-00 AID-20 NSC-10 RSC-01 CIEP-02

SAL-01 SS-14 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-09 NSAE-00 TRSE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-02 PA-03 USIA-12 PRS-01 AGR-20 RSR-01

/161 W

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R 270306 Z MAR 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 2607

UNCLAS TOKYO 3552

PASS TREASURY AND FEDERAL RESERVE

E. O. 11652: NA

TAGS: EFIN JA

SUBJ: DISCOUNT RATE INCREASE LIKELY

1. AN INCREASE IN THE OFFICIAL DISCOUNT RATE OF 0.5 PERCENT IS UNDER SERIOUS DISCUSSION BY MOF AND BOJ OFFICIALS THIS WEEK. OFFICIAL SOURCES INDICATE IT LIKELY THAT RATE WILL BE RAISED FROM 4.25 PERCENT TO 4.75 PERCENT FOLLOWING MINFIN AICHI' S RETURN FROM WASHINGTON. THE EXACT TIMING OF SUCH AN INCREASE IS DIFFICULT TO PREDICT BECAUSE FINANCE MINISTRY OFFICIALS MAY WISH TO AVOID ANY RATE ACTION UNTIL THE FISCAL 1973 BUDGET HAS PASSED THE DIET.

2. RAISING THE DISCOUNT RATE WOULD REPRESENT THE THIRD ACTION BY THE BOJ IN RECENT MONTHS TO TIGHTEN DOMESTIC MONETARY CONDITIONS. RESERVE REQUIREMENTS WERE INCREASED DURING MID- JAN AND MID- MAR TO MOP UP EXCESS BANK LIQUIDITY AND MONEY MARKET CONDITIONS HAVE TIGHTENED ACCORDINGLY IN ADDITION, THE BOJ GAVE WINDOW GUIDANCE TO LIMIT THE INCREASE IN BANK LOANS TO LARGE BUSINESS. HOWEVER, A RISE IN THE DISCOUNT RATE WOULD LEAD TO GENERAL INCREASES

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IN DOMESTIC INTEREST RATES AND BE A FURTHER SIGNAL OF MONETARY RESTRAINT.

3. AT PRESENT THREE REASONS ARE BEING GIVEN FOR ACTIVE CONSIDERATION OF A CHANGE IN THE OFFICIAL DISCOUNT RATE: (A) IN SPITE OF THE RECENT FLOATING OF THE YEN, DOMESTIC BUSINESS IS EXPANDING AT AN EXCESSIVE RATE. (B) COMMODITY PRICES ARE INCREASING EXTREMELY RAPIDLY, ENCOURAGING COMMODITY SPECULATION (SUCH AS FOR TUNA, WOOL, SILK, SOYBEANS, LUMBER AND OTHER PRODUCTS). (C) LEADERS IN FINANCE AND INDUSTRY, REPRESENTED PRIMARILY BY THE FED OF ECONOMIC ORGNS (KEIDANREN), HAVE BEGUN TO ADMIT THE NECESSITY FOR THE GOJ TO TAKE ACTION NOW TO STEM THIS INFLATIONARY TREND.

4. IN ADDITION, GOVT SOURCES INDICATE A REALIZATION THAT CHANGES IN MONETARY POLICY (I. E. INCREASE IN RESERVE RATIOS AND THE DISCOUNT RATE) MAY NOT BE ENOUGH TO DEAL WITH THE VERY STRONG AND WIDESPREAD INFLATIONARY TENDENCIES. THEY ARE BEGINNING TO BELIEVE THAT ADDITIONAL FISCAL MEASURES, SUCH AS DEFERMENT OF HUGE PROSPECTIVE PUBLIC WORKS INVESTMENT EXPENDITURES, MAY BE NECESSARY AND ARE GIVING ACTIVE CONSIDERATION TO THEM AS AN ADJUNCT TO THE MONETARY MEASURES DESCRIBED ABOVE. NO MENTION WAS MADE OF DEFERRING PERSONAL INCOME TAX CUTS PROPOSED FOR THIS YEAR.
INGERSOLL

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